

Chelsea Area Construction Agency

**Financial Report
with Supplemental Information
February 29, 2008**

Chelsea Area Construction Agency

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Independent Auditor's Report

To the Board of Directors
Chelsea Area Construction Agency

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chelsea Area Construction Agency as of and for the year ended February 29, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Chelsea Area Construction Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Chelsea Area Construction Agency as of February 29, 2008 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Directors
Chelsea Area Construction Agency

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the management's discussion and analysis. However, we did not audit the information and express no opinion on it.

Plante & Morse, PLLC

October 13, 2008

Chelsea Area Construction Agency

Management's Discussion and Analysis

This discussion and analysis of the Chelsea Area Construction Agency's (the "Agency") financial performance provides an overview of the Agency's financial activities for the fiscal year ended February 29, 2008. Please read it in conjunction with the Agency's financial statements.

Using this Annual Report

The General Fund and the Soil Erosion Fund are presented on the modified accrual basis of accounting, which is a short-term view that tells us how the Agency's resources were spent during the year, as well as how much is available for future spending. This information is then adjusted to the full accrual basis to present a longer-term view of the Agency as a whole. This longer-term view uses the full accrual basis of accounting so that it can measure the true cost of providing services during the current year, and whether the customers have funded the full cost of providing inspection services.

The Agency's full accrual basis financial statements present information about the Agency's total economic resources, including long-lived assets and long-term obligations. This information is important as it recognizes the long-term ramifications of decisions made by the Agency on an ongoing basis.

Condensed Financial Information (Full Accrual Basis)

The following table below shows key financial information in a condensed format:

	2008	2007
Assets		
Current assets	\$ 139,336	\$ 404,321
Capital assets	1,119,415	493,160
Total assets	1,258,751	897,481
Liabilities		
Current liabilities	40,167	57,603
Other noncurrent liabilities	549,151	28,144
Total liabilities	589,318	85,747
Net Assets		
Investment in capital assets	607,375	493,160
Unrestricted	62,058	318,574
Total net assets	\$ 669,433	\$ 811,734

Chelsea Area Construction Agency

Management's Discussion and Analysis (Continued)

	2008	2007
Revenue		
Permits	\$ 243,476	\$ 507,173
Other	10,319	29,498
Total revenue	253,795	536,671
Expenses - Construction services	396,096	557,179
Change in Net Assets	\$ (142,301)	\$ (20,508)

Full Accrual Analysis

The full accrual statement of activities shows a decrease in net assets of \$142,301. This reflects that Agency customers have not paid the full cost of operating the Agency.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations and future capital projects, total \$62,058. Unrestricted net assets decreased during the year by \$256,516, which is the result of subsidizing operations and investing in the Agency's new facility. Also, permit revenue is down significantly as construction activity in Washtenaw County has decreased due to the downturn in Michigan's economy.

Modified Accrual Analysis

The General Fund pays for all of the Agency's operations, excluding activity related to soil erosion permits and inspections. Typically, the most significant are personnel and related staffing expenses, including paying of inspectors, of \$289,206, which accounts for 79 percent of the total operating expenditures, excluding capital outlay. This year, the Agency incurred significant capital outlay expenditures related to the construction of the Agency's new facility. Capital outlay expenditures totaled \$620,943. This was mostly offset by the proceeds from a construction loan which totaled \$512,040. Fund balance in the General Fund decreased by \$232,566 in fiscal year 2007/2008. Total governmental fund balance decreased by \$247,549. Fund balance decreased \$94,738 in fiscal year 2006/2007.

Chelsea Area Construction Agency

Management's Discussion and Analysis (Continued)

Budgetary Highlights

As required by State of Michigan law, the Agency amended the budget to take into account events during the year.

In the General Fund, operating income exceeded the budgeted amount by \$4,994. Significant budget amendments were made related to the capital outlay and debt proceeds.

Permit revenue was approximately \$80,000 less than the original budget due to the overall downturn in the construction industry in Washtenaw County.

Actual expenditures were approximately \$3,000 less than budgeted.

Capital Asset and Debt Administration

At the end of 2007/2008, the Agency had \$1,119,415 invested in capital assets, primarily in land and the new facility (see Note 3 to the financial statements).

In order to fund the construction of the new facility, the Agency entered into a construction loan with a local bank. Borrowings to date as of February 29, 2008 were \$512,040. Once construction is complete, the loan will be converted into a 20-year permanent loan with monthly principal payments due.

Economic Factors and Next Year's Budget

With uncertain construction activity in Washtenaw County, the Agency will continue to be conservative with its 2008/2009 budget.

In the coming year, the Agency plans to complete construction of the new facility and obtain the certificate of occupancy sometime in the fall of 2008.

Contacting the Agency's Management

This financial report is intended to provide our customers with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Agency at (734) 475-4420.

Chelsea Area Construction Agency

General Fund Balance Sheet/Statement of Net Assets February 29, 2008

	General Fund	Soil Erosion Fund	Balance Sheet - Modified Accrual	Adjustments (Note 8)	Statement of Net Assets - Full Accrual Basis
Assets					
Cash and cash equivalents (Note 2)	\$ 90,626	\$ 44,480	\$ 135,106	\$ -	\$ 135,106
Due from Soil Erosion Fund	1,767	-	1,767	(1,767)	-
Other current assets	4,230	-	4,230	-	4,230
Capital assets being depreciated (Note 3)	-	-	-	9,970	9,970
Capital assets not being depreciated (Note 3)	-	-	-	1,109,445	1,109,445
Total assets	<u>\$ 96,623</u>	<u>\$ 44,480</u>	<u>\$ 141,103</u>	1,117,648	1,258,751
Liabilities					
Accounts payable	\$ 2,133	\$ -	\$ 2,133	-	2,133
Deposits	-	34,460	34,460	-	34,460
Accrued liabilities	3,574	-	3,574	-	3,574
Due to General Fund	-	1,767	1,767	(1,767)	-
Long-term debt (Note 4)	-	-	-	512,040	512,040
Compensated absences	-	-	-	37,111	37,111
Total liabilities	5,707	36,227	41,934	547,384	589,318
Fund Balance - Unreserved and undesignated	<u>90,916</u>	<u>8,253</u>	<u>99,169</u>	<u>(99,169)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 96,623</u>	<u>\$ 44,480</u>	<u>\$ 141,103</u>		
Net Assets					
Invested in capital assets - Net of related debt				607,375	607,375
Unrestricted				<u>62,058</u>	<u>62,058</u>
Total net assets				<u>\$ 669,433</u>	<u>\$ 669,433</u>

Chelsea Area Construction Agency

Statement of General Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended February 29, 2008

	General Fund	Soil Erosion Fund	Revenues and Expenditures - Modified Accrual	Adjustments (Note 8)	Statement of Activities, Full Accrual Basis
Operating Revenue					
Permits	\$ 233,588	\$ 9,888	\$ 243,476	\$ -	\$ 243,476
Miscellaneous	3,203	-	3,203	-	3,203
Interest income	5,640	1,476	7,116	-	7,116
Total operating revenue	242,431	11,364	253,795	-	253,795
Operating Expenditures					
Salaries	109,463	3,000	112,463	8,968	121,431
Payroll taxes	9,890	-	9,890	-	9,890
Workers' compensation	5,844	-	5,844	-	5,844
Medical expense	14,672	-	14,672	-	14,672
Pension	7,811	-	7,811	-	7,811
Vehicle expense	7,431	-	7,431	-	7,431
Equipment rental	3,478	-	3,478	-	3,478
Insurance	5,248	-	5,248	-	5,248
Professional services	23,949	-	23,949	-	23,949
Telephone	7,770	-	7,770	-	7,770
Miscellaneous	2,007	1,123	3,130	-	3,130
Inspections	141,526	21,324	162,850	-	162,850
Dues and subscriptions	805	-	805	-	805
Education and training	535	-	535	-	535
Office rent	9,300	900	10,200	-	10,200
Office expense	8,313	-	8,313	-	8,313
Capital outlay	620,943	-	620,943	(620,943)	-
Interest expense	8,052	-	8,052	(8,052)	-
Depreciation	-	-	-	2,739	2,739
Total operating expenditures	987,037	26,347	1,013,384	(617,288)	396,096
Excess of Expenditures Over Revenue	(744,606)	(14,983)	(759,589)	617,288	(142,301)
Other Financing Sources - Proceeds from issuance of debt	512,040	-	512,040	(512,040)	-
Net Change in Fund Balance/Net Assets	(232,566)	(14,983)	(247,549)	105,248	(142,301)
Fund Balance/Net Assets - March 1, 2007	323,482	23,236	346,718	465,016	811,734
Fund Balance/Net Assets - February 29, 2008	<u>\$ 90,916</u>	<u>\$ 8,253</u>	<u>\$ 99,169</u>	<u>\$ 570,264</u>	<u>\$ 669,433</u>

Chelsea Area Construction Agency

Notes to Financial Statements February 29, 2008

Note I - Nature of Organization and Summary of Significant Accounting Policies

Reporting Entity

The Chelsea Area Construction Agency (the "Agency") is governed by a board of directors that is appointed by participating municipalities. The Agency was formed effective February 8, 2000 through a cooperative interlocal agreement between the City of Chelsea, Dexter Township, Lima Township, Lyndon Township, Sharon Township, and Sylvan Township. The Agency provides building, electrical, mechanical, and plumbing permits, along with other related services, to residents of these communities.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Agency, there are no component units to be included in these financial statements.

The accounting policies of the Chelsea Area Construction Agency conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Chelsea Area Construction Agency:

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Agency's basic financial statements included both government-wide (reporting the Agency as a whole) and fund financial statements (reporting the Agency's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Agency's net assets are reported in two parts, invested in capital assets net of related debt and unrestricted net assets.

Chelsea Area Construction Agency

Notes to Financial Statements February 29, 2008

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Agency. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to first apply restricted resources.

The Agency reports the following major governmental funds:

General Fund - The General Fund is the Agency's primary operating fund. It accounts for all financial resources of the Agency, except those related to soil erosion inspections.

Soil Erosion Fund - The Soil Erosion Fund accounts for the activity associated with soil erosion inspections.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Chelsea Area Construction Agency

Notes to Financial Statements February 29, 2008

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and money market accounts.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to General Fund" and "due from Soil Erosion Fund."

Fixed Assets - Generally, capital assets are defined by the Agency as assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5-10 years
Leasehold improvements	15 years
Software	3 years

Compensated Absences (Vacation and Sick Leave) - It is the Agency's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

The following is a summary of the changes to accrued compensated absences during the year ended February 29, 2008:

Balance March 1, 2007	Additions	Balance February 29, 2008
\$ 28,144	\$ 8,967	\$ 37,111

Chelsea Area Construction Agency

Notes to Financial Statements February 29, 2008

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Related Parties - The Agency rents its office space from Sylvan Township for a total of \$850 per month.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Cash

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Agency is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Agency has designated one bank for the deposit of its funds. The Agency has not adopted an official investment policy for unrestricted funds. The Agency's investments are in accordance with the Uniform Management of Institutional Funds Act, Public Act 157 of 1976.

Chelsea Area Construction Agency

Notes to Financial Statements February 29, 2008

Note 2 - Cash (Continued)

The Agency's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a deposit policy for custodial credit risk. At year end, the Agency had no bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Agency believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Agency evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk levels are used as depositories.

Note 3 - Capital Assets

Capital asset activity of the Agency is as follows:

	Balance March 1, 2007	Additions	Disposals and Adjustments	Balance February 29, 2008
Capital assets not being depreciated:				
Land	\$ 343,724	\$ -	\$ -	\$ 343,724
Construction in progress	136,726	628,995	-	765,721
Subtotal	480,450	628,995	-	1,109,445
Capital assets being depreciated:				
Office furniture and equipment	20,644	-	-	20,644
Leasehold improvements	12,225	-	-	12,225
Software	8,035	-	-	8,035
Subtotal	40,904	-	-	40,904
Accumulated depreciation:				
Office furniture and equipment	(14,455)	(1,924)	-	(16,379)
Leasehold improvements	(5,705)	(815)	-	(6,520)
Software	(8,035)	-	-	(8,035)
Total accumulated depreciation	(28,195)	(2,739)	-	(30,934)
Net capital assets being depreciated	12,709	(2,739)	-	9,970
Net capital assets	\$ 493,159	\$ 626,256	\$ -	\$ 1,119,415

Depreciation expense was \$2,739 for the year ended February 29, 2008.

Chelsea Area Construction Agency

Notes to Financial Statements February 29, 2008

Note 3 - Capital Assets (Continued)

Construction Commitments - The Agency is currently in the process of constructing a building to be used as the permanent office location of the Agency. The building is expected to be completed during the 2008-09 fiscal year. At year end, the Agency's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
W Porath Construction	\$ 780,071	\$ 197,150

Note 4 - Long-term Debt

In order to fund the construction in Note 3, the Agency has available a \$600,000 bank construction loan, bearing interest at 0.5 percent below the bank's prime rate (the bank's prime rate was 6.0 percent at February 29, 2008), and collateralized by the Agency's land and the new facility. Once construction is complete, the loan will convert to a 20-year permanent loan and will be repaid in monthly installments over 20 years. The balance outstanding on the construction loan at February 29, 2008 was \$512,040.

Note 5 - Budget Information

The annual budget is prepared and adopted by the Agency board. Subsequent amendments are also approved by the Agency board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at February 29, 2008 has not been calculated. The budget is prepared by the Agency board and is ratified at the last meeting of the previous fiscal year. Amendments to the budget are made by the Agency board during the year. The budget may be amended up to the last day of the current fiscal year. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Chelsea Area Construction Agency

Notes to Financial Statements February 29, 2008

Note 5 - Budget Information (Continued)

The budget for both the General Fund and Soil Erosion Fund has been adopted on a total fund basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A line item comparison of actual results of operations to the budget (for internal use only) can be seen by examining the totals in the budgetary comparison schedule - General Fund in the required supplemental information section. All expenditures were approved by the board.

Note 6 - Risk Management

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Agency has purchased commercial insurance for all such claims.

Note 7 - Defined Contribution Retirement Plan

The Agency provides pension benefits for all its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees become participants in the plan immediately. Employees may make voluntary contributions totaling 4 percent of the employee's includable compensation. The Agency has committed to and is currently making contributions totaling 3 percent of includable compensation. Also, the Agency will make a matching contribution totaling 100 percent of the employee's own contribution. Full vesting takes place immediately for all contributions and related account earnings. The Agency contributed \$7,811 during the current year and employees contributed \$4,463.

Chelsea Area Construction Agency

Notes to Financial Statements February 29, 2008

Note 8 - Reconciliation of General Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Agency's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the General Fund balance sheet and statement of revenue, expenditures, and changes in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified accrual basis	\$ 99,169
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and are not reported in the funds	1,119,415
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Long-term liabilities are not due and payable in the current period and are not reported in the funds	(512,040)
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Compensated absences are included as a liability	<u>(37,111)</u>
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Net Assets of General Fund - Full accrual basis	<u>\$ 669,433</u>
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Net Change in Fund Balances - Modified accrual basis	\$ (247,549)
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	620,943
Depreciation	(2,739)

Interest expense being capitalized	8,052
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Proceeds from construction loan are recognized as revenue in the governmental funds, but not in the statement of activities	(512,040)
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Decrease in accrual for long-term compensated absences is reported as a decrease in expenditure in the statement of activities, but not in the fund statements	<u>(8,968)</u>
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Change in Net Assets of General Fund - Full accrual basis	<u>\$ (142,301)</u>
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Required Supplemental Information

Chelsea Area Construction Agency

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended February 29, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Permits	\$ 312,000	\$ 231,550	\$ 233,588	\$ 2,038
Miscellaneous	8,250	5,400	3,203	(2,197)
Interest income	3,000	3,200	5,640	2,440
Total revenue	323,250	240,150	242,431	2,281
Expenditures				
Salaries	110,000	109,000	109,463	(463)
Payroll taxes	10,000	10,000	9,890	110
Workers' compensation	8,200	8,200	5,844	2,356
Medical expense	23,000	16,000	14,672	1,328
Pension	11,000	8,000	7,811	189
Vehicle expense	7,000	7,500	7,431	69
Equipment rental	2,000	3,500	3,478	22
Insurance	4,500	5,500	5,248	252
Professional services	10,000	25,000	23,949	1,051
Telephone	10,000	8,000	7,770	230
Miscellaneous	2,500	2,500	2,007	493
Inspections	135,000	142,000	141,526	474
Dues and subscriptions	1,400	1,000	805	195
Education and training	1,500	600	535	65
Office rent	9,000	9,000	9,300	(300)
Office expense	24,250	8,950	8,313	637
Capital outlay	-	625,000	620,943	4,057
Interest expense	150	-	8,052	(8,052)
Total expenditures	369,500	989,750	987,037	2,713
Excess of Expenditures Over Revenue	(46,250)	(749,600)	(744,606)	4,994
Other Financing Sources - Proceeds from issuance of debt	-	512,040	512,040	-
Net Change in Fund Balance	(46,250)	(237,560)	(232,566)	4,994
Fund Balance - March 1, 2007	323,482	323,482	323,482	-
Fund Balance - February 29, 2008	<u>\$ 277,232</u>	<u>\$ 85,922</u>	<u>\$ 90,916</u>	<u>\$ 4,994</u>

Chelsea Area Construction Agency

Required Supplemental Information Budgetary Comparison Schedule - Soil Erosion Fund Year Ended February 29, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Permits	\$ 20,000	\$ 9,900	\$ 9,888	\$ (12)
Interest income	1,500	1,400	1,476	76
Total revenue	21,500	11,300	11,364	64
Expenditures				
Inspector	10,000	22,000	21,324	676
Clerical	3,000	3,000	3,000	-
Office expenses	1,000	1,100	-	1,100
Printing	100	100	-	100
Bank charges	250	250	-	250
Miscellaneous charges	1,000	1,000	1,123	(123)
Rent	900	900	900	-
Capital outlay	5,250	-	-	-
Total expenditures	21,500	28,350	26,347	2,003
Excess of Expenditures Over Revenue	-	(17,050)	(14,983)	2,067
Fund Balance - March 1, 2007	23,236	23,236	23,236	-
Fund Balance - February 29, 2008	<u>\$ 23,236</u>	<u>\$ 6,186</u>	<u>\$ 8,253</u>	<u>\$ 2,067</u>

Chelsea Area Construction Agency

**Report to the Members of the Agency Board
February 29, 2008**

To the Members of the Agency Board
Chelsea Area Construction Agency

We have recently completed our audit of the basic financial statements of the Chelsea Area Construction Agency (the "Agency") for the year ended February 29, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Agency:

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We are grateful for the opportunity to be of service to the Chelsea Area Construction Agency. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 13, 2008

October 13, 2008

To the Members of the Agency Board
Chelsea Area Construction Agency

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Chelsea Area Construction Agency's (the "Agency") financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Agency as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal controls over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following to be significant deficiencies in internal control:

To the Members of the Agency Board
Chelsea Area Construction Agency

- Due to the small size of the Agency's staff, segregation of duties and managerial oversight must be a primary focus of internal control. The Agency's contracted bookkeeper has the ability to make electronic bank transfers, write checks, record manual journal entries, has sole access to the general ledger, and reconciles the bank statements. Using contracted help from outside the Agency is an additional control; however, the Agency needs to perform various review procedures of the bookkeeper's work:
 - Every month, review bank statements for unusual activity
 - Every month, review bank reconciliations and agree bank balance to bank statement, agree book balance to general ledger, and review outstanding checks and deposits in transit for propriety
 - Review every check run, ensuring that the first check written in the current run immediately follows the last check written in the previous run

These steps could be performed by the office manager.

- Currently, pre-numbered receipts are only given to customers that pay cash. When checks are received, the permit acts as the receipt. A separate pre-numbered receipt should be given to every customer. Then, the receipts should be reconciled to the bank deposit ticket before the deposit is taken to the bank. This will ensure that the deposits are complete and provide an auditable paper trail. Again, this reconciliation process could be performed by the office manager.
- Proper cutoff procedures are not being performed. During audit testing, we noted that interest expense and a portion of a construction invoice were not recorded in the proper period.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

To the Members of the Agency Board
Chelsea Area Construction Agency

We would like to thank the Agency staff for the cooperation extended to us during the audit.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "David Helisek".

David H. Helisek

A handwritten signature in black ink, appearing to read "Brian J. Camiller".

Brian J. Camiller

To the Members of the Agency Board
Chelsea Area Construction Agency

We have audited the financial statements of Chelsea Area Construction Agency (the "Agency") for the year ended February 29, 2008 and have issued our report thereon dated October 13, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 27, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Chelsea Area Construction Agency. Our consideration of internal controls was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 7, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Agency are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended February 29, 2008.

To the Members of the Agency Board
Chelsea Area Construction Agency

We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimated useful lives of capital assets.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

During the audit, we experienced difficulty in obtaining audit schedules and other audit-related materials from the Agency in order to perform the audit in a timely manner which caused a delay in performing the audit.

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 2008.

To the Members of the Agency Board
Chelsea Area Construction Agency

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the Agency, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Agency, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Agency's auditors.

This information is intended solely for the use of the board of directors and management of Chelsea Area Construction Agency and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



David H. Helisek



Brian J. Camiller

Other Recommendations

Investment Policy

We continue to recommend that the Board adopt a policy that specifically outlines the investments the Agency allows itself to invest in. This policy should be in compliance with Public Act 20 of 1943.

Payouts of Accrued Compensated Absences

During the audit, we noted that the building official has accrued 442 hours of vacation time, 58 hours more than what is allowed under the Agency's policy, as of February 29, 2008. It is our understanding that these excess accrued hours, in accordance with the Agency's policy, have been paid out subsequent to year end.